1BN) Refineries Doubling Shutdowns Signals Oil Slide: Energy Mar kets

+--+

Refineries Doubling Shutdowns Signals Oil Slide: Energy Markets
2012-07-12 05:30:36.512 GMT

By Aaron Clark

July 12 (Bloomberg) -- Refiners in the U.S. Midwest including BP Plc will shut almost twice as much capacity as usual in the fourth quarter, reducing demand for oil and depressing crude prices as stockpiles rise.

An average of 271,000 barrels a day of the region's crude- unit capacity will be offline for maintenance, close to double the five-year average of 138,000 barrels, according to IIR Energy, a Sugar Land, Texas-based energy-information provider.

Canadian crude oil used in the region fell below $50 a barrel in June for the first time in more than 21 months.

The Midwest accounts for about 20 percent of U.S. refining capacity and plays a disproportionate role in determining crude prices because its plants draw supply from Cushing, Oklahoma, the trading hub for U.S. oil and delivery point for New York- traded futures contracts. Supplies at Cushing have remained near record levels even after Enterprise Products Partners LP and Enbridge Inc. reversed the 150,000 barrel-a-day Seaway pipeline.

"That is definitely a higher-than-usual turnaround cycle," said Cory Garcia, an analyst at Raymond James & Associates Inc. in Houston. "Pricing is still going to be stumbling as infrastructure tries to keep up."

Among the shutdowns in the quarter, BP will close a crude unit at its plant in Whiting, Indiana, the Midwest's largest, while Marathon Petroleum Corp. idles its 114,000-barrel-a-day Detroit refinery. The effect on gasoline prices is likely to be moderated by low demand, which typically declines in winter.

WTI-Brent Spread

West Texas Intermediate for August delivery was little changed today at $85.57 a barrel after rising 2.3 percent yesterday on the New York Mercantile Exchange, trimming its decline this year to 13 percent. It was $14.47 cheaper than Brent crude on the London-based ICE Futures Europe exchange.

Western Canada Select, a blend of heavy oils from Alberta, gained $5.40 yesterday to $67.31. It dropped to $49.69 on June 28, the lowest level since Sept. 17, 2010.

WTI traded this year at an average of $15.31 less than Brent, the benchmark for more than half of world's crudes, amid surging output and limited pipeline space. Stockpiles at Cushing climbed to a record 47.8 million barrels on June 1 and were 2.1 percent lower five weeks later.

U.S. crude production averaged 6.25 million barrels a day last week, 16 percent higher than the five-year average, the Energy Department said yesterday in Washington. Canadian oil output rose 4.6 percent last year to a record 3.52 million barrels a day, according to BP Statistical Review of World Energy.

Higher Supply

The contango in WTI crude, or discount of prompt-delivery futures to those for later delivery, was 38 cents yesterday, and averaged 29 cents during the past year.

"On the supply side of the equation, production in Canada and North Dakota and Texas is going up," said Michael Wittner, the New York-based head of oil-market research at Societe Generale SA. "That would put some downward pressure on the front of the WTI forward curve."

The Energy Department cut its 2012 WTI price projection on July 10 by 4.1 percent to an average of $92.83 because of production increases and slower economic growth. The U.S. benchmark crude grade will average $88.50 in 2013, down 8.8 percent from last month's estimate of $97.

North American grades will remain depressed until the Seaway pipeline's capacity is boosted to 400,000 barrels a day in the first quarter of next year, said Andrew Lebow, a senior vice president at Jefferies Bache LLC in New York.

"Price-wise we could be in for some fairly volatile trading," he said.

Refinery Work

BP will shut the largest of three crude units, known as Pipestill 12, at Whiting in November to convert the equipment to process heavy Canadian crude, a person familiar with operations said April 19. The refinery will close a smaller crude unit known as 11A starting Aug. 6 for as many as eight weeks of work, another person said July 10. Pipestill 11C, originally scheduled to be done simultaneously, has been delayed until next year.

Marathon will shut the Detroit plant in early September for work expected to last until mid-November to tie in new units that will allow the plant to process more heavy oil from Canada, a person with knowledge of the plans said March 1.

HollyFrontier Corp. will idle the 90,000-barrel-a-day West plant at its Tulsa, Oklahoma, refinery starting in November for maintenance scheduled to last about five weeks, a person with knowledge of the work said June 28.

Light Crude Demand

Conversions at BP's Whiting plant and Marathon's Detroit refinery, along with an upgrade completed last year at Phillips 66's Wood River plant in Illinois, will boost heavy oil consumption in the region by 470,000 barrels a day, Ed Morse, global head of commodities research at Citigroup Inc. in New York, said in a July 6, 2011, report. Light crude demand will fall by 430,000 barrels a day at the same plants, he said.

"You already have a situation where demand is destroyed for light sweet crudes such as WTI" as Midwest refineries upgrade to process more heavy oil, said Stephen Schork, president of the Schork Group Inc., an energy-advisory company in Villanova, Pennsylvania.

Supplies of heavy oil may rise after Imperial Oil Ltd.'s Kearl oil sands project, about 44 miles (70 kilometers) north of Fort McMurray, Alberta, begins production at 110,000 barrels a day by the end of the year.

Canadian producers are attempting to cut their reliance on the Midwest as the main destination for their exports.

Enbridge is working to expand its capacity to ship oil eastward to increase the amount of oil that can move from Alberta to Quebec and the U.S. East Coast.

East Coast

Refineries in Trainer, Pennsylvania, and Philadelphia, in danger of shutting because they had no access to cheaper crude from the Midwest and western Canada, are being revamped by new owners to receive the oil by rail.

A decline in prices may be moderated by demand from northeast U.S. refiners, according to Schork.

Raymond James cut its WTI and Brent price forecasts in June by $12 a barrel to $87.63 and $102.12, respectively, citing growing production. It lowered its 2013 WTI price forecast by $18 to $65 a barrel. Brent will average $80 next year, it said.

The discount for the U.S. benchmark versus Brent may increase to between $18 and $20 this year as refinery maintenance temporarily cuts demand and production increases, according to Garcia. That may give refiners an incentive to delay work, he said.

"Safety is still the foremost thing in a refinery's mind," Garcia said. "But if you can push it out until next season you are obviously going to do that in the margin environment you are seeing today."

For Related News and Information:
Stories on oil markets: NI OILMARKET <GO> Energy Department Data: DOE <GO> Top Oil Stories: OTOP <GO> Energy Markets Columns: NI NRGM <GO>

-- Editors: Dan Stets, David Marino

To contact the reporter on this story:
Aaron Clark in New York at +1-212-617-2473 or aclark27@bloomberg.net

To contact the editor responsible for this story:
Dan Stets at +1-212-617-4403 or
dstets@bloomberg.net